

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	:	
	:	Docket No. 00-0259
Petition for expedited approval of	:	
implementation of a market-based	:	
alternative tariff, to become effective on	:	
or before May 1, 2000, pursuant to	:	
Article IX and Section 16-112 of the	:	
Public Utilities Act	:	
	:	(cons.)
Central Illinois Public Service Company	:	
Union Electric Company	:	
	:	Docket No. 00-0395
Petition for approval of revisions to	:	
market value tariff, Rider MV	:	
	:	
Illinois Power Company	:	
	:	Docket No. 00-0461
Proposed new Rider MVI and	:	
Revisions to Rider TC	:	

Joint Direct Testimony on Re-Opening Of

PHILIP R. O'CONNOR

and

TOM BRAMSCHREIBER

On Behalf Of

AES NEWENERGY, INC.

FEBRUARY 16, 2001

OFFICIAL FILE

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Witness _____

Date 2-27-01 reporter CB

1 **Q. Please state your names and business address.**

2 A. Philip R. O'Connor and Tom Bramschreiber. AES NewEnergy, Inc., 309 West
3 Washington Street, Suite 1100, Chicago, Illinois 60606.

4
5 **Q. Are you the same Dr. O'Connor and Mr. Bramschreiber who previously**
6 **testified in the instant proceeding?**

7 A. Yes. We do note that Mr. Bramschreiber has recently taken a temporary
8 assignment within AES Great Plains, Inc., a different business unit within AES.

9
10 **Q. What is the purpose of this phase of the proceeding?**

11 A. Based upon the recent action of the Illinois Commerce Commission
12 ("Commission") to grant the motions for additional hearings that were filed by
13 AES NewEnergy and the Illinois Industrial Energy Consumers ("IIEC"); it is our
14 understanding that the purpose of this phase of the proceeding is three-fold.

15 **First**, Commonwealth Edison Company ("Edison"); Central Illinois
16 Public Service Company and Union Electric Company ("Ameren"); and
17 Illinois Power Company ("Illinois Power"), collectively referred to as "the
18 Utilities" have been requested to provide evidence regarding the prices at
19 which they have sold off-peak power and energy during the past twelve
20 (12) months to determine if any adjustment to day-ahead off-peak spot
21 transactions is appropriate. **Second**, the Commission has requested that
22 additional evidence be taken regarding the optionality adjustments utilized
23 by the Utilities themselves in the wholesale marketplace to properly

1 account for the value of serving an uncertain load. **Third**, the
2 Commission is interested in examining the impact on Edison's proposal of
3 Bloomberg PowerMatch removing the Into ComEd trading screen.
4

5 **Q. What is the purpose of your joint testimony on re-opening?**

6 A. The purpose of our joint testimony is to discuss (i) the impact of Bloomberg
7 removing the Into ComEd trading screen; and (ii) the dramatic "skyrocketing" in
8 off-peak spot market prices which undermines the very foundation of Edison's
9 original proposal with respect to off-peak market values. Although our testimony
10 focuses primarily on Edison, the content generally applies to the three market
11 index proposals offered by the Utilities.
12

13 NewEnergy-sponsored witness Daniel J. Somers of Ernst & Young will discuss
14 issues related to the optionality adjustment that is needed to properly account for
15 the value of serving an uncertain load.
16

17 **Q. Should the outcome of this proceeding result in Market Value Index ("MVI")**
18 **tariffs being approved on a permanent basis?**

19 A. No. As discussed further below, electricity markets throughout the nation are
20 experiencing constant and continual changes. Past market performance is not a
21 reliable indicator of future market performance. For this reason, it is imperative
22 for the Commission to maintain jurisdiction over the MVI tariffs by requiring that

1 the tariffs be filed on an interim basis or limiting the effectiveness to at least a
2 twelve (12) month period but in no event longer than twenty-four (24) months.

3
4 **Q. Please describe what has recently occurred with respect to the original data**
5 **sources relied upon by Edison for the calculation of on-peak and off-peak**
6 **market prices.**

7 **A.** As the development of wholesale markets and the sources of wholesale market
8 data have continued to evolve in recent months, the three original data sources for
9 calculation of Edison's on-peak and off-peak market prices have endured
10 dramatic changes. This is true even over the short three-month period since the
11 record was closed in the initial phase of this proceeding.

12
13 **First**, on November 21, 2000, Edison notified the parties within this proceeding
14 that the Into ComEd trading screen was being removed from Bloomberg
15 PowerMatch due to lack of sufficient trading activity. **Second**, on December 4,
16 2000, an article appeared on Page 1 of McGraw-Hill Energy's Power Markets
17 Week which bore the headline, "Traders See Altrade, Bloomberg Losing Ground
18 In Crowded Online Trading Arena." **Third**, the November 20, 2000, issue of
19 Power Markets Week, published the week Reply Briefs were filed in the initial
20 phase of this proceeding, showed no off-peak activity for the Into ComEd spot
21 market for the entire reporting period (*i.e.*, no transactions reported for the entire
22 weekday period of November 13th through the 17th). All told, the thinness and

1 relative lack of liquidity in the northern Illinois market was dramatically
2 illustrated over this short two-week period.

3
4 We will address each of these developments in detail below. However, we would
5 note that Mr. Nichols, testifying on behalf of Edison, has indicated that Edison
6 will accept use of Into Cinergy data rather than Into ComEd data in its market
7 index methodology; embracing a backstop alternative suggested in the Hearing
8 Examiner's Proposed Order. Edison has not provided an adequate explanation of
9 the reasons surrounding this recent change of position on its preferred source of
10 on-peak forward market data.

11
12 Rather than adopt a sensible guard against manipulation of the Into ComEd on-
13 peak forward market data, Edison would rather change one of the fundamental
14 components of its proposal.

15
16 **Volume of Trading on the Edison-Selected Electronic Exchanges**

17 **Q. What was Edison's position during the initial phase of this proceeding**
18 **regarding the volume of electronic exchange transactions?**

19 **A.** Last summer, Edison witness Mr. Huntowski testified that trading on the
20 Bloomberg and Altrade electronic exchanges was growing. (See Edison witness
21 Huntowski Rebuttal at 7.) While that may have been true at the time, subsequent
22 months have shown the exact opposite to have occurred with respect to

1 Bloomberg PowerMatch -- so much so that Bloomberg chose to remove the Into
2 ComEd hub from its reporting service due to lack of sufficient trading activity.

3
4 **Q. With respect to the Altrade Power Exchange, is the Into ComEd trading**
5 **screen still actively traded?**

6 A. While the trading screen is still active, the amount of activity that occurs via the
7 screen is ambiguous. The Page 1 article that appeared in the December 4, 2000,
8 issue of Power Markets Week stated, in part:

9 "Online power trading platforms backed by large marketers appear to have
10 dealt a blow to two once-strong independent platforms, according to a
11 large number of traders, in the battle for dominance in the fragmented
12 online trading business [T]raders report that liquidity is drying up on
13 the platforms operated by Altrade Power Exchange and Bloomberg's
14 PowerMatch."

15
16 Representatives of Altrade and Bloomberg (whose subjectivity is self-evident)
17 dispute the trader's perceptions, but even Edison, the major proponent of these
18 forums, acknowledges that apparently there has been a slow down in trading
19 activity. Edison witness Mr. Nichols acknowledges that "there has been a general
20 downturn in trading volume during the end of 2000." The recent volatility and
21 higher electricity prices experienced throughout the nation have resulted in many
22 traders, including NewEnergy's traders, relying more on bi-lateral and personal
23 relationship transactions as opposed to electronic exchange transactions.

1 Q. Based upon the apparent reduction in trading activity for the Into ComEd
2 hub, does NewEnergy still support Edison's proposal to use an Into ComEd
3 methodology for establishing monthly on-peak forward market prices (e.g.,
4 Altrade Power Exchange)?

5 A. Yes. For the Edison market only, an Into ComEd on-peak data source is more
6 appropriate than an Into Cinergy on-peak data source plus a basis or location
7 adjustment. Instead of agreeing to modify its data hierarchy to minimize the risk
8 of manipulation, Edison has now proposed to completely abandon the Into
9 ComEd market as the basis for the calculation of the on-peak forward market
10 values. The Commission should reject Edison's ill-conceived abandonment of its
11 original position for two independent reasons:

- 12 (1) Use of the Into Cinergy electronic exchange for developing on-peak
13 market values for Edison is not supported by the record; and
14 (2) Abandonment of the Into ComEd electronic exchange at this time will
15 forever retard the development of a competitive market in the Edison
16 service territory.

17
18 The Proposed Order accurately recognized that Section 16-112(m) appears to
19 allow Edison and the other utilities to reject Commission proposed modifications
20 to a market index tariff, in favor of a return to the NFF process. However, the
21 fear of a return to the NFF should not form the basis to provide Edison with an
22 option to abandon its proposal; especially given that the proposed modification is
23 designed to reduce the potential for manipulation. Affording Edison such an

1 option sends inappropriate signals, provides perverse incentives for the Utilities to
2 stonewall and sandbag, and is an improper manner for the Commission to set
3 public policy.

4
5 It is in the best interest of consumers and the development of a competitive
6 market for a robust trading hub to develop in northern Illinois. If Edison
7 abandons its original Into ComEd proposal, such a robust trading hub will not
8 develop.

9
10 That point aside, if the Commission were to accept Edison's eleventh-hour switch
11 to an Into Cinergy on-peak forward market data source, the Commission should
12 adopt Staff's proposed multiplicative basis adjustment to account for the
13 locational difference between the two markets.

14
15 **Q. Does NewEnergy still support the use of electronic exchanges for determining**
16 **monthly on-peak forward market prices?**

17 **A.** Yes. Although it still remains too early to tell which electronic trading platforms
18 will ever develop beyond their current levels or even survive into the future. The
19 data sources of monthly on-peak forward market prices must continue to be
20 monitored by the Commission, with appropriate changes made when warranted.

1 Q. How should the Commission continue to monitor the use of electronic
2 trading exchanges?

3 A. At the very least, the Commission should limit the effectiveness of the proposed
4 MVI tariffs to at least a twelve (12) month period but in no event longer than
5 twenty-four (24) months.

6

7 Off-Peak Transactions
8 Q. With respect to off-peak trading for the Into ComEd delivery point, what is
9 the implication of no off-peak spot transactions being reported for an entire
10 week?

11 A. The lack of reported off-peak spot transactions for an entire week provides a clear
12 indication that ~~no one~~ relies, in whole or in part, on day-ahead off-peak spot
13 transactions to serve their day-to-day load requirements (e.g., not NewEnergy, not
14 any other alternative retail electric supplier ("ARES"), and not the Utilities
15 themselves). Moreover, the lack of reported off-peak spot transactions for an
16 entire week also provides a clear indication that the Utilities do not rely on this
17 market to "resell" the amount of freed-up power and energy made available when
18 retail customers move to ARES'.

19

20 Contrary to Edison's contention that it is perfectly reasonable for an ARES to rely
21 on day-ahead off-peak spot purchases to serve daily load requirements, the routine
22 lack of reported off-peak transactions indicates that absolutely no one who is

1 active in the market believes Edison's assertion, including Edison itself. Edison's
2 actions speak much louder than its words.

3
4 Reliance on daily spot transactions, to serve firm contractual retail load
5 commitments when availability and price are not known with any certainty in
6 advance, would be operationally and economically speculative. NewEnergy
7 operates in the Edison market as a load following entity - - not an entity who
8 speculates on the availability or price of power and energy. All indications are
9 that Edison serves its native load in much the same fashion.

10
11 Moreover, as discussed more fully below, recent market activity has shown that
12 **historical** off-peak spot market prices do not provide a reasonable proxy for
13 **future** off-peak market prices.

14
15 **Q. What recent developments have occurred in the day-ahead off-peak spot**
16 **market?**

17 A. There has been a stark and dramatic change in off-peak spot prices over the past
18 few months. A number of factors, including higher prices for natural gas and
19 increased costs related to emissions compliance, have resulted in day-ahead off-
20 peak spot prices skyrocketing over historical levels. By way of comparison,
21 Edison's current Applicable Period A Market Value Index incorporates a monthly
22 off-peak market price of approximately \$13 per megawatt-hour for the month of
23 December. (This figure is the simple average of day-ahead off-peak spot

1 transactions reported in Power Markets Week for the next regular weekday during
2 the month of December of 1999.) In contrast, this approximately \$13 per
3 megawatt-hour rate increases to approximately \$30 per megawatt-hour when the
4 same calculation is performed for the month of December of 2000. **This is a**
5 **130% increase** from December 1999 to December 2000. In addition, individual
6 weekdays in December of 2000 ranged from \$17 to \$52 per megawatt-hour, with
7 the daily low being more than **30% above** the prior December's monthly average
8 (\$17 daily low price in December of 2000 versus \$13 monthly average price in
9 December of 1999).

10
11 **Q. What impact should the recent skyrocketing of off-peak prices have upon**
12 **this proceeding?**

13 A. This recent and continuing change in off-peak spot market prices emphasizes the
14 need to have a reasonable "sunset" provision requirement as part of any MVI
15 tariff. As seen in California, electricity markets change quickly and abruptly and
16 a reasonable sunset provision provides one form of safeguard to help achieve the
17 General Assembly's stated intention in the Act "to facilitate the development of
18 competition for generation services". (See 220 ILCS 5/16/109.)

19
20 **Q. What was Edison's position with respect to off-peak spot prices during the**
21 **initial phase of this proceeding?**

22 A. Mr. Huntowski testified on behalf of Edison that historical off-peak prices are a
23 good proxy for future off-peak prices because they tend to be relatively stable

1 over time. (See Edison witness Huntowski Rebuttal at 12.) That is the very
2 foundation upon which Edison bases its off-peak market price determination.
3 Recent developments in the off-peak spot market have shown Mr. Huntowski's
4 testimony to have been grossly inaccurate. Off-peak spot prices have **not**
5 remained relatively stable over time - - not even over the short time since the
6 record was closed in the initial phase of this proceeding.

7
8 Where in the past NewEnergy received off-peak forward block quotes in the
9 upper-teens (e.g., \$15 - \$18 per megawatt-hour), we are now receiving such off-
10 peak forward block quotes in the mid-twenties (e.g., \$23 - \$27 per megawatt-
11 hour).

12
13 **Q. Mr. Huntowski, who testified in the initial phase on behalf of Edison, has**
14 **contended that credit ratings effect the price at which buyers are able to**
15 **acquire power and energy. Do you agree with this position?**

16 **A.** No. The issue of credit is much more "black and white" than the "shades of gray"
17 suggested by Mr. Huntowski. Typically, before any exchange of pricing data
18 occurs, parties to a potential transaction must be preliminarily deemed credit-
19 worthy by each other. If one party is unwilling to trade with the another, due to
20 past or existing credit concerns, price discussions are superfluous. Even if price
21 and terms are agreed upon in principal, a contract will only be executed after
22 minimum credit standards are further satisfied (e.g., posting collateral and/or
23 further reviewing the credit rating of the counter-party). In short, no credit results

1 in no contract; rather than Mr. Huntowski's suggestion that poor credit results in a
2 higher price that incorporates some sort of credit risk premium.

3
4 It is not a matter, for example, of charging an extra dollar or two per megawatt-
5 hour to lower credit-rated counter-parties. Either the buyer is likely to pay or the
6 buyer is not likely to pay, and the price per unit does not impact that likelihood.
7 Mr. Huntowski's analysis defies simple logic: if a counter-party is not likely to
8 pay at \$35 per megawatt-hour, that counter-party is certainly not likely to pay at
9 \$37 per megawatt-hour.

10
11 **Q. What is the result of the continued use of the Edison "average dump sale"**
12 **methodology for calculating off-peak prices?**

13 A. The resulting market values will incorporate "stale" data that is two years old in
14 some cases. For example, the index Edison proposes to calculate this spring will
15 be in effect for the May of 2001 through April of 2002 period. Included in this
16 Applicable Period A index will be "average dump sale" off-peak prices from
17 April of 2000, a period some twenty-four months prior to the expiration of the
18 index. Such stale data will not fully capture or reflect the recent changes in off-
19 peak spot prices on a timely basis (*i.e.*, historical data will always be trailing
20 current information). As the Commission is aware, the use of stale data is one of
21 the most often cited objections to the Neutral Fact Finder (NFF) method of
22 determining market values.

1 **Q. What is NewEnergy's position with respect to off-peak spot prices?**

2 A. Edison's proposal for determining off-peak market prices improperly relies upon
3 an artificial, unsupported, and inaccurate extrapolation of daily off-peak spot
4 prices into longer-term forward market prices. The proposed methodology
5 understates off-peak market prices by failing to reflect energy price premiums that
6 are associated with longer-term off-peak energy contracts (*i.e.*, price and
7 availability risk inherent in forward transactions). If one accepts Edison's
8 methodology, then one has accepted the underlying premise that the average of
9 daily spot transactions is equal to multi-day longer-term transactions. In other
10 words, by accepting Edison's methodology, the Commission would be declaring
11 that Edison is willing to commit its generation resources over multiple days at
12 daily spot market-clearing prices, with no added premium for price and
13 availability risk. The Utilities have not offered any evidence indicating that the
14 simple average of day-ahead off-peak spot transactions are equal to multi-day off-
15 peak forward transactions on a routine and continual basis.

16
17 **Q. What evidence has been shown regarding off-peak forward transactions in**
18 **the Into ComEd Market?**

19 A. What has been shown is that day-ahead off-peak spot transactions are not reported
20 by Power Markets Week on every weekday. For example, last month there were
21 **no** off-peak spot transactions reported on January 2, 3, 4, 5, 9, 17, 18, 30 and 31.
22 This is a clear indication that no party relies on off-peak spot transactions to serve
23 daily load requirements or to resell freed-up power and energy. Unlike the robust

Chicago city-gate natural gas market, where transactions are reported each and every regular weekday, the Into ComEd off-peak electricity market is only sporadically utilized (i.e., some days transactions are reported, other days no transactions are reported).

Q. Can an ARES rely solely on day-ahead spot transactions as reported in Power Markets Week to serve retail load?

A. Edison's position with respect to this issue remains baffling. It is inconceivable that an ARES who relies solely on day-ahead off-peak spot transactions can comply with the good faith scheduling requirement - - especially when **such transactions do not occur on every day.**

Whether scheduling using "load following service" or scheduling using the subjective and loosely defined "Aztec Pyramid Method," scheduling **nothing** during the off-peak hours on any day simply cannot result in good faith scheduling for typical packages of aggregate retail load. Looking at the week ending November 17, 2000, for example, there was not one single day in which off-peak spot transactions were reported in Power Markets Week for the Into ComEd delivery point (same for the week ending January 5, 2001).

1 Q. How would the lack of any reported off-peak spot transactions impact an
2 ARES?

3 A. An ARES who relied solely on day-ahead off-peak spot transactions would have
4 scheduled **absolutely nothing** for each weekday, thus resulting in the fulfillment
5 of their entire load requirement through imbalance service. Edison cannot
6 credibly assert that this is an acceptable way of procuring supply to meet retail
7 customer load requirements. It is simply illogical for Edison to argue that
8 scheduling **nothing** can satisfy any definition of good faith scheduling. The
9 bottom line is that no ARES is behaving according to the Edison theory. Day-
10 ahead off-peak spot transactions, which have not occurred on every regular
11 weekday, do not provide a source of supply that will permit satisfaction of the
12 good faith scheduling requirement. While an ARES may have relied on off-peak
13 "dump sales" to satisfy some portion of its load requirement from day-to-day,
14 other supply arrangements must have been in place to provide sufficient energy to
15 meet retail customer load requirements.

16
17 Q. How does this impact Edison's proposal?

18 A. To the extent that an ARES must also rely on the hourly spot market, multi-day
19 off-peak forward purchases, or round-the-clock forward purchases to augment its
20 supply portfolio, there has been no evidence whatsoever offered to date that the
21 resulting cost will be equal to the "average dump sale" method Edison has
22 proposed. If one were to accept such a premise, then one would need to accept
23 that hourly spot transactions, day-ahead spot transactions, and multi-day forward

1 transactions are all priced and valued the same during off-peak hours (*i.e.*,
2 average of day-ahead spot transactions are representative of **all** off-peak weekday
3 transactions). There has been no evidence submitted that supports this premise.
4

5 **Q. How does NewEnergy propose that the Commission should calculate the off-**
6 **peak market values?**

7 A. There are two separate questions that need to be answered with respect to off-
8 peak market values. **First**, Edison should be required to verify whether the
9 simple average of day-ahead off-peak spot transactions has been reflective of
10 multi-day off-peak forward transactions on a routine and continual basis. **Second**,
11 it should be determined whether historical off-peak spot prices are a good proxy
12 for future off-peak forward prices. The former is historical in nature, the latter is
13 prospective in nature.
14

15 **Q. How should the Commission determine if the simple average of day-ahead**
16 **off-peak spot transactions have been reflective of multi-day off-peak forward**
17 **transactions?**

18 A. At a minimum, the Commission should review the actual prices at which the
19 Utilities have sold off-peak power and energy in short and long-term transactions
20 during the past twelve (12) months. It is our understanding that Edison has
21 provided such information on a confidential basis to the Staff and the Attorney
22 General. Particular focus should be placed on whether day-ahead off-peak spot
23 transactions are reflective of multi-day off-peak forward transactions on a routine

1 and continual basis. By calculating the monthly volume-weighted average of all
2 multi-day off-peak transactions less than 30-days in duration, a comparison to the
3 monthly average of day-ahead spot transactions as published in Power Market
4 Week for the same calendar month can be made. Only after such a comparison is
5 made can the validity of Edison's position that the average of day-ahead off-peak
6 spot transactions is equal to multi-day off-peak transactions be assessed.

7
8 **Q. How should the Commission determine if historical off-peak spot prices are a**
9 **good proxy for future off-peak forward prices?**

10 A. The Commission should rely upon use of the market survey or broker quote
11 system to determine this answer.

12
13 **Q. How do you propose that the Commission engage in such an exercise?**

14 A. On or about the time the Market Value is being calculated, the Commission Staff
15 or an independent third-party should contact various suppliers seeking an
16 indication of off-peak forward market prices for the period corresponding to the
17 effective period of the applicable index (e.g., twelve months ending April of
18 2002). The suppliers contacted should include brokers and marketers, as well as
19 the wholesale trading unit or affiliate of Ameren, Edison, and Illinois Power.
20 With respect to the Utilities, a verified or sworn statement from a top utility
21 representative should also be required that states the range of off-peak prices at
22 which blocks of power and energy are being offered (i.e., range in which the
23 Utilities or its affiliates are willing to sell off-peak power and energy).

1 **Q. What type of third-party entities are you referring to?**

2 A. There are a number of independent third-parties that already gather similar data
3 from market participants, including Megawatt Daily or Power Markets Week.
4 Additionally, the Commission Staff may wish to solicit recommendations from
5 the Utilities and ARES for other entities or suppliers that should be included on
6 the list.

7
8 **Q. What should be the focus of this process?**

9 A. Particular focus should again be placed on whether historical day-ahead off-peak
10 spot transactions are reflective of off-peak forward transactions on a routine and
11 continual basis.

12
13 **Q. Please explain how you are recommending that this market survey or broker
14 quote system be conducted?**

15 A. We recommend that the following five (5) steps be followed:

16 (1) determine period for which forward off-peak prices are desired
17 (e.g., Period A or Period B);

18 (2) draft a Request for Proposal seeking off-peak forward market
19 quotes for the desired period (proposal can be drafted with input of
20 parties represented in this proceeding to elicit maximum response
21 level);

22 (3) contact a number of brokers and marketers (perhaps as many as a
23 dozen) requesting bids and offers for desired time period (survey

should include Cinergy and PJM markets to provide maximum response level);

(4) eliminate the high and low responses, and average the remaining responses; and

(5) compare average of remaining responses to off-peak block prices embedded in the Utilities methodology (per unit rate for one megawatt in each wholesale off-peak hour).

Only after such a comparison is made can the validity of Edison's position that the average of historical day-ahead off-peak spot transactions is equal to multi-day off-peak transaction be assessed.

Q. Given the various recent developments in the Illinois retail electric market, and the issue being addressed on re-opening, do you have an opinion regarding the effectiveness of the proposed MVI tariffs?

A. Yes. There have been a number of recent developments that warrant limiting the effectiveness of the proposed MVI tariffs to at least a twelve (12) month period but in no event longer than twenty-four (24) months. Some of these recent developments include:

- (1) the decrease in trading on Bloomberg and Altrade;
- (2) the termination of the Into ComEd screen from Bloomberg;
- (3) the indication at the last minute by Edison that, after having heavily promoted the "Into ComEd" market index that it is prepared to acquiesce to the substitution of the Into Cinergy index without explanation for their shift;

- (4) the substantial changes in off-peak price levels and volatility compared to historical patterns;
- (5) the rather obvious lack of an adjustment to account for the costs associated with serving uncertain load, that is load that is different than historical patterns;
- (6) a vast reduction in the number of retail customers exercising choice in the Edison service territory; and
- (7) the generally unsettled conditions in electric deregulation.

All of these recent developments should be cause for serious concern by the Commission. The problems inherent in turning over any future changes or non-changes in the MVI to the unilateral determination of the utilities should be self-evident. The Commission should retain continuing oversight and jurisdiction over the MVI tariffs in order to continue to steer the future course of Illinois' transition to competition in the electric industry.

The MVI tariffs should be approved for at least a one-year period but in no event longer than twenty-four (24) months with workshops and monitoring efforts immediately initiated. A lack of monitoring of the market was a major factor in the California Public Utility Commission not adequately being prepared and informed to prevent the well-documented adverse developments in that state.

1 Please summarize your recommendations.

2 A. The Commission should:

- 3 • Maintain jurisdiction over the MVI tariffs by requiring that the tariffs be filed
4 on an interim basis or limiting the effectiveness to at least a one-year period
5 but in no event longer than twenty-four (24) months given the various recent
6 developments in the Illinois retail electric market;
- 7 • Review the actual prices at which the Utilities have sold off-peak power and
8 energy in short and long-term transactions during the past twelve (12) months.
9 Particular focus should be placed on whether day-ahead off-peak spot
10 transactions are reflective of multi-day off-peak forward transactions on a
11 routine and continual basis;
- 12 • Utilize a market survey or broker quote system to determine if historical off-
13 peak spot prices are a good proxy for future off-peak forward prices.

14
15 Q. Does that conclude your testimony?

16 A. Yes.

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AFFIDAVIT OF PHILIP R. O'CONNOR, PH.D. AND TOM BRAMSCHREIBER

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

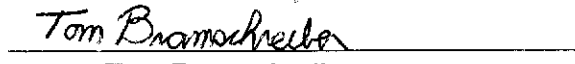
PHILIP R. O'CONNOR, PH.D., and TOM BRAMSCHREIBER, being duly sworn, state as follows:

1. All facts stated in the Joint Direct testimony on Re-Opening in the above-referenced proceeding are based solely upon their personal knowledge and experiences.
2. If called to testify, they would state that Philip R. O'Connor is President of AES NewEnergy, Inc. His office is located at 309 W. Washington Street, Suite 1100, Chicago, Illinois 60606.
3. If called to testify, they would state that Tom Bramschreiber has recently taken a temporary assignment as a Project Director with AES Great Plains, Inc., a different business unit within AES. His office is located at 1901 Butterfield Road, Suite 650, Downers Grove, Illinois 60515.

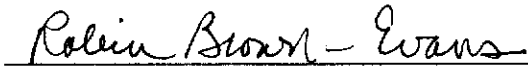
4. If they were called to testify and asked the same questions contained in the joint direct testimony on re-opening, they would give the same answers contained therein.
5. If called to testify, they would state that the information contained in the joint direct testimony on re-opening is true and correct to the best of their knowledge, information and belief.
6. Further Affiants sayeth not.

Dated this 6th day of March, 2001.


Philip R. O'Connor


Tom Bramschreiber

Subscribed and sworn to before me
this 6th day of March, 2001.


Notary

